CZAR RESOURCES LTD.

ANNUAL REPORT
1990

CORPORATE PROFILE

Czar Resources Ltd. is an independent Canadian energy company engaged in the exploration for and development and production of natural gas reserves in Western Canada and the marketing and sales of natural gas to markets throughout North America.

Czar's natural gas marketing strategy is based on the acquisition of long-term contracts to supply gas to geographically diversified users, with secure transportation arrangements.

Czar's exploration and development strategy continues to target natural gas in the Western Canadian basin. The Company plans to steadily expand its existing reserves base in order to meet the natural gas reserves obligations of existing contracts and to explore in areas where new contracts may be obtained.

Czar's corporate objectives are to demonstrate per share growth in earnings, cash flow and asset value and growth in natural gas reserves while enhancing the Company's financial strength by controlling its financial leverage.

ANNUAL MEETING

The annual meeting of the shareholders of Czar Resources Ltd. will be held on May 23, 1991 at 3:00 p.m. in the Westin Hotel Lakeview Endroom, 4th Avenue & 3rd Street S.W., Calgary, Alberta, Canada.

Contents

Copies of the Company's Annual Information Form as filed with the Ontario Securities Commission are available upon written request free of charge to all shareholders of record and beneficial owners of shares. Requests should be directed to the Corporate Secretary at the head office address shown.

APRL 29, 1991

HIGHLIGHTS

(thousands unless otherwise indicated)

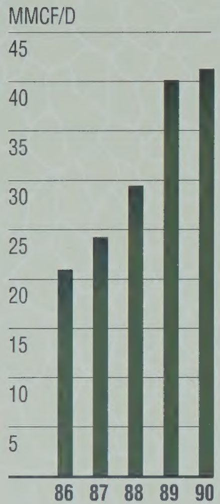
Financial

	1990	1989	1988
Total Revenue	**$21,106**	$19,517	$14,711
Cash Flow from Operations	**$ 7,586**	$ 6,799	$ 5,061
Cash Flow Per Share	**$ 0.21**	$ 0.24	$ 0.18
Net Earnings	**$ 1,637**	$ 1,301	$ 1,472
Net Earnings Per Share	**$ 0.05**	$ 0.05	$ 0.05
Capital Expenditures	**$14,217**	$11,105	$ 9,985
Total Assets	**$66,110**	$61,300	$53,973
Common Shares Outstanding	**36,280**	35,556	27,637

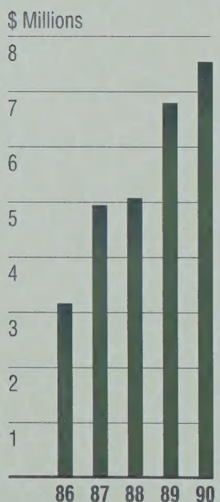
Operating

	1990	1989	1988
Production (Before Royalties)			
Natural gas (BCF)	**14.8**	14.6	10.8
Average daily production (MMCF/D)	**40.5**	40.1	29.4
Crude oil and natural gas liquids (MSTB)	**118**	136	154
Average daily production (BOPD)	**324**	374	438
Drilling Activity			
Gas completions	**16**	15	15
Dry and abandoned	**1**	3	4
Total wells	**17**	18	19
Undeveloped Land Holdings (net acres)			
British Columbia	**127,941**	97,490	85,483
Alberta	**47,436**	43,624	42,473
Saskatchewan	**2,761**	—	—
Total acres	**178,138**	141,114	127,956
Reserves (proved and probable)			
Before Royalties			
Gas (BCF)	**226**	195	197
Oil & NGL's (MSTB)	**1,445**	1,161	1,443
After Royalties			
Gas (BCF)	**175**	155	157
Oil & NGL's (MSTB)	**1,106**	908	1,134

TO THE SHAREHOLDERS



Gas Production



Cash Flow

On behalf of the Board of Directors, I am pleased to report very satisfactory results for the year ended December 31, 1990.

Highlights of the year were:

FINANCIAL	• continued growth in revenues, cash flow and earnings;
GAS SALES	• increased gas sales to an increasing number of long-term contracts;
EXPLORATION	• excellent results from the drilling program in the Helmet area of British Columbia.

As a result of the foregoing, Czar has greatly expanded its reserve and production base, providing the basis for continuing growth during 1991. The Company has also developed a number of new long-term gas contracts which will allow for steady increases in gas sales through the 1990's.

Corporate Strategy

Czar's corporate strategy is to build a natural gas reserves base and cash flow stream with which to maximize its participation in the anticipated recovery and growth of the natural gas industry in Canada.

Czar's plan is based on the view that the Canadian natural gas industry will steadily improve through the 1990's, primarily due to the continued deterioration of gas fundamentals in the United States and the resulting increasing demand for natural gas imports from Canada.

One of Czar's key business strategies has been to participate in a portfolio of natural gas development contracts. These contracts allow for the development of a portion of the contracted reserves over a period of years and permit the exploration, development and financing of gas production to be conducted with the complete assurance that the gas can be produced immediately and sold under satisfactory pricing and rate of take terms.

Joint Ventures

Czar operates under the framework of two Joint Ventures, one with each of Orbit Oil & Gas Ltd. and Frobisher Resources Ltd. The Joint Ventures, with Czar as operator, provide the Czar Group with the necessary "critical mass" of natural gas reserves and financial strength to effectively carry out the corporate business plan.

Business Plan – Focus on Natural Gas

Czar's business plan is based on the belief that natural gas is a North American energy commodity in a mature phase of its development cycle and that United States gas reserves are in an irreversible decline.

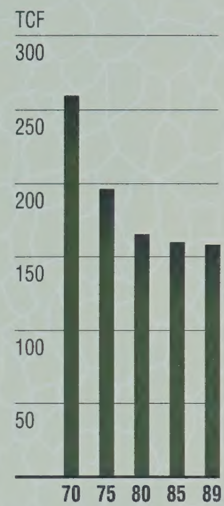
The following facts are illustrative of the deterioration of the United States gas reserves base:

- United States gas reserves in the lower 48 States have declined steadily since 1969 and in 1989 were at the second lowest level since 1945;
- United States gas discoveries have steadily declined through the 1980's and reported reserves have only been stabilized by extensive reserve revisions;
- rig activity to replace gas reserves remains at low levels due to an extended period of low prices; and
- in 1990, United States imports of Canadian gas increased to record levels indicating a substantial import demand at market clearing prices.

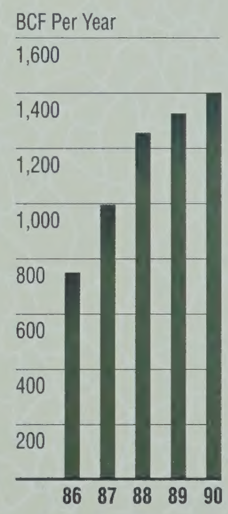
In contrast with the declining U.S. reserve potential, the demand outlook for natural gas is very positive. U.S. gas consumption in 1990 has recovered to the highest level since the early 1980's and recent gas prices have only been restrained by abnormally warm winters and the impact of gas storage. Continuing pressure for cleaner, more environmentally sensitive fuels such as gas, primarily in the area of electrical power generation, will give rise to greater demand for natural gas through the 1990's.

Consequently, prospects are excellent for Canadian gas producers. The Western Canadian basin has been more sparsely drilled than the more mature U.S. basins and opportunities for finding large new pools of gas still exist. Although Canadian gas prices have remained low and the marketing situation is extremely competitive, Czar's premise is that increasingly larger volumes of gas will be exported from Western Canada to the United States, with steadily improving prices.

Hence, the Company's strategy has been to participate in a variety of long-term, geographically diverse export contracts, covered by secure long-term transportation arrangements. This strategy is expected to result in increasing natural gas sales and gas prices closely linked to prices in the United States.

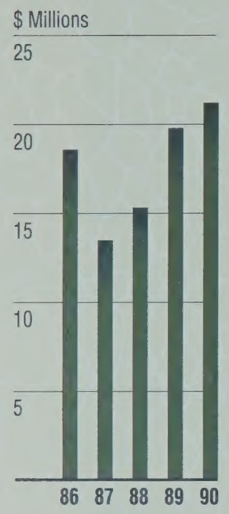


U.S. Gas Reserves (Lower 48 States)

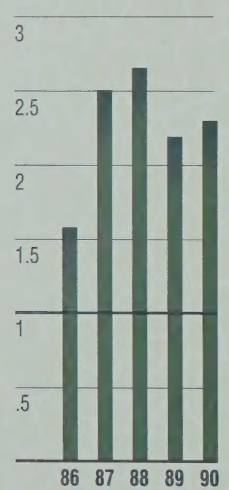


Canadian Gas Exports

REVIEW OF 1990 ACTIVITIES



Total Revenue



Fixed Charge Coverage

Financial

Total revenue for 1990 was $21.1 million compared with $19.5 million in 1989. This increase primarily resulted from higher natural gas prices.

Cash flow from operations was $7.6 million, or 21 cents per share compared with $6.8 million or 24 cents per share in 1989. Earnings totalled $1.6 million or five cents per share in 1990 compared with $1.3 million or five cents per share in 1989.

Czar's capital expenditures increased to $14.2 million in 1990 from $11.1 million in 1989. Capital expenditures were financed from $1.1 million in proceeds from flow through share equity, $7.6 million of cash flow, $1.2 million from an increase in obligations under capital leases and $4.3 million from an increase in other long-term debt.

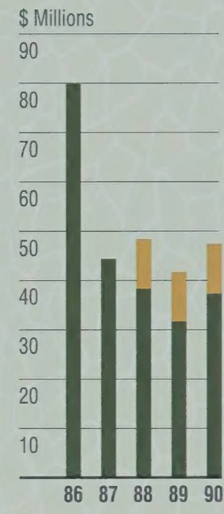
During the past three years the Company has funded its capital expenditures program primarily from cash flow and the proceeds from equity issues as follows:

NON-DEBT SOURCE OF FUNDS	1990	1989	1988
Cash flow	**$ 7,586**	$ 6,799	$ 5,061
Equity issues	**717**	10,624	954
Total funds available	**$ 8,303**	$17,423	$ 6,015
Capital expenditures	**$14,217**	$11,105	$ 9,984

These expenditures have resulted in higher gas production and an increased reserve base with no net increase in liabilities since the end of 1988. As a result of a reduced expenditure level planned for 1991, Czar is confident that that increased revenue, primarily derived from the Helmet expansion, will continue to improve the Company financial ratios. For 1990, fixed charge coverage from cash flow, debt retirement from cash flow and other financing ratios continued an improving trend. The recent rapid decline in Canadian interest rates and the likelihood of the decline continuing is of great significance to Czar and materially assists in improving the Company's financial outlook.

Business Plan

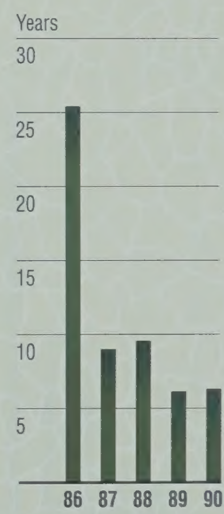
Over the past decade, Czar's business plan has evolved from surviving the downturn of the early 1980's, with its large natural gas reserve base intact, to its current plan of an exploration program driven primarily by natural gas export contracts. As a result, the Company has for the past three years, concentrated on the exploration of natural gas rights in Western Canada, natural gas acquisitions, the development and control of the related production facilities and the production, marketing and sales of its natural gas to high priced, long-term export markets.



Total Debt
& Liabilities
Debenture
Debt

Czar maintains its long-held view that the Canadian natural gas industry will steadily improve through the 1990's, primarily due to the continued deterioration of gas fundamentals in the United States and the resulting increasing demand for natural gas imports from Canada. However, since the timing and extent of the improvement in the Canadian natural gas industry is difficult to predict, the Company has developed a business plan aimed at maintaining its natural gas reserve base and maximizing natural gas production and prices.

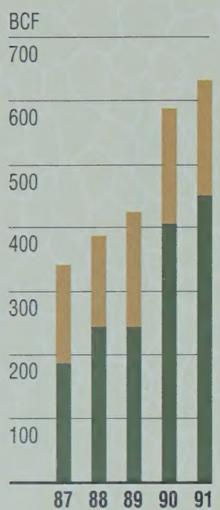
One of Czar's key business strategies has been to participate in a portfolio of natural gas development contracts. These contracts allow for the development of a portion of the contracted reserves over a period of years and permits the exploration, development and financing of gas production to be conducted with the complete assurance that the gas can be produced immediately and sold under satisfactory pricing and rate of take terms.



Debt To Cash Flow

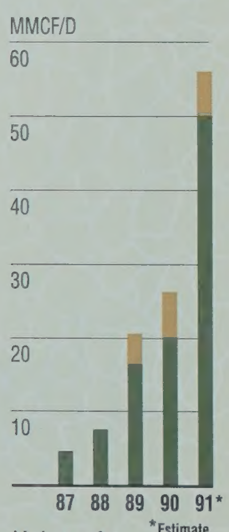
The implementation of the plan involves the following:

- Dedication of the critical mass of natural gas reserves necessary to obtain long-term development gas contracts. This has been greatly assisted by the Orbit and Frobisher Joint Venture arrangements and the formation of the Czar Group.
- Analyzing the market and electing to dedicate gas to long-term export contracts with a record of consistent rates of take and higher than average netbacks to the producer.
- Participating for as large a percentage as possible in new projects, thereby minimizing overhead and maximizing the benefits of the Company's gas marketing efforts.
- Exploring in select gas prone areas where sizeable reserves can be developed and the Company can build and control production facilities.
- Pursuing all opportunities to acquire reserves where the Company's marketing expertise, control of production facilities or technical expertise can effectively increase the value of the property.



Czar Gas Contracts – Gross Dedicated Reserves

Alberta
British Columbia



Helmet Area Deliverability

Peggo
Helmet

Natural Gas Marketing

The main objectives of the Czar Group's natural gas marketing efforts are to:

- maintain dedicated reserves and deliveries to all existing contracts;
- research new market opportunities with the following contractual ingredients:
  - high rates of take
  - attractive netback pricing
  - long-term export outlet
  - secure transportation service in place
  - expansion opportunities;
- monitor the political and regulatory activities which may impact on the value of current and future gas contracts.

The Company's portfolio of long-term contracts now totals in excess of 600 BCF of gross dedicated reserves and is comprised of the following key contracts:

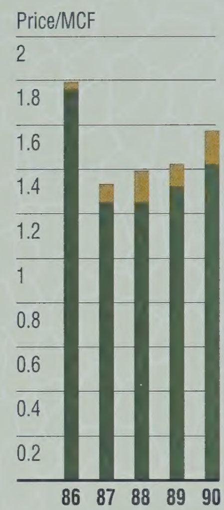
BUYER	Gross Dedicated Reserves (BCF)	Gross Daily Contract Quantity (DCQ) (MMCF/D)	Czar Net Production (MMCF/D)
A&S	220	40.0[3]	2.4
KannGaz	55	10.5	3.2
Unigas [1]	40	10.8	0.1
Pro Gas	30	4.2	3.0
Sherritt	50	16	6.4
BC Gas [2]	40	30	—
Other, Long-Term	195	30	8.4
Other, Short-Term	—	—	17.0
Totals	630	141.5	40.5

[1] *Full contract volumes will commence by November 1, 1992.* [2] *Contract deliveries to commence November 1, 1991*
[3] *A&S gross DCQ averaged 11.7 MMCF/D during 1990.*

The majority of the Company's efforts in 1990 were directed towards developing the necessary reserves in the Helmet area to satisfy the reserve commitment under the A&S contract. A successful exploration, development and acquisition program in Helmet led to A&S redetermining the reserves and assigning 230 BCF of reserves to lands in the Helmet area controlled by Czar and its partners.

With the A&S reserve requirements in place, Czar commenced negotiations with BC Gas Inc. in 1990. The intended objectives were to provide a long-term contract outlet for a number of short-term B.C. industrial contracts whose terms were due to expire and provide a market opportunity for future exploration and development in British Columbia. In the first quarter of 1991, Czar and its partners entered into two natural gas sales contracts with BC Gas Inc., totalling 30 MMCF/D, with deliveries commencing November 1, 1991 from Czar operated gas wells in Northeastern British Columbia.

The Company's natural gas marketing efforts in Alberta during the past year have primarily been focussed on developing the reserves and deliverability required to maintain the Czar Group's existing contracts.



Gas Price and Net Back
Direct Transportation
Net Back

AVERAGE PRODUCT PRICES BEFORE ROYALTIES

	Gas After Transportation Costs $/MCF	Oil and Natural Gas Liquids $/BBL
1990	1.42	21.99
1989	1.32	16.52
1988	1.25	14.47
1987	1.25	19.10
1986	1.66	20.23

Production

Natural gas production slightly exceeded the record levels established in 1989 and averaged 40.5 MMCF/D for the year. Unseasonably warm weather during the traditionally high demand months of 1990 resulted in production remaining relatively unchanged throughout 1990, even though the Company had increased its deliverability by the connection of additional wells in Helmet during the spring of 1990.

In the first quarter of 1990, Czar and its partners completed the initial phase of the expansion of the Helmet gas gathering system to increase deliverability for the A&S contract. This phase of the expansion involved the construction of 17 miles of pipelines and included the crossing of the Petitot River. With the connection of seven new wells, the deliverability was increased to 20 MMCF/D, Czar net 10.4 MMCF/D. The second phase, commenced in November of 1990 and completed in March of 1991, was a $13 million, Czar net $4 million, expansion of the Helmet compression and gas gathering system and represented the largest single engineering project in the Company's history. The project involved installation of 6300 HP of compression, construction of 14 miles of pipelines and connection of two additional wells and increased Helmet deliverability to 60 MMCF/D, Czar net 20.8 MMCF/D.

Exploration successes and the completion of the expansion project in the Helmet area have resulted in a substantial increase in Czar's natural gas deliverability. As a result, the Company can meet all its B.C. long-term contract obligations and is in a position to take advantage of select short or long-term marketing opportunities that arise from Czar's marketing efforts.

The Company's 1990 net gas production was sourced from Alberta and British Columbia, with 19.4 MMCF/D from Alberta and 21.1 MMCF/D produced in B.C. Major contributing properties were:

ALBERTA	MMCF/D	BRITISH COLUMBIA	MMCF/D
Gadsby	5.4	Helmet	11.0
Drumheller	3.3	Monias	3.2
Wimborne	2.9		
Other	7.8	Other	6.9
	19.4		21.1

Czar achieved a new production milestone with the additional Helmet deliverability coming onstream early in 1991. At the time of writing, total natural gas production operated by the Company reached 134 MMCF/D, Czar net approximately 54 MMCF/D.

Exploration, Development and Reserve Acquisitions

During 1990, Czar participated in the drilling of 17 wells, 16 of which were completed as natural gas wells. Interests in an additional 21 gas wells were acquired in three separate acquisitions during 1990.

Nine of the successful wells were drilled in Alberta, eight of which were shallow Belly River gas wells drilled in South Central Alberta. The majority of these wells, at Ewing Lake, Twining, Delia and two at Wimborne, were drilled to expand the reserves or deliverability of existing pools.

DRILLING RESULTS

	Gas Wells		Oil Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1990	16	8.0	0	0	1	0.3	17	8.3
1989	15	9.3	0	0	3	2.0	18	11.3
1988	15	9.1	0	0	4	2.7	19	11.8
1987	22	9.0	1	0.9	9	3.9	32	13.8
1986	15	8.6	2	0.1	2	1.0	19	9.7
	83	44.0	3	1.0	19	9.9	105	54.9

Helmet Area – Northeastern British Columbia

During 1990, Czar concentrated on exploration in the Helmet area of Northeastern British Columbia, as a result of the close integration of the exploration effort to the Company's gas requirements under its strategic plan. The obtaining of a long-term contract with A&S in this area has resulted in Czar virtually exclusively focussing its exploration effort there for the past two years. Hence the majority of its 1990 budget, approximately 64%, was incurred in Helmet.

After an extensive stratigraphic review of the Jean Marie formation in the Helmet area, the Company identified that the wells could be categorized into either high or average deliverability types. Consequently, in the past two years, Czar has attempted to acquire acreage primarily in those areas where more prolific wells could be encountered.

As a result of the foregoing, Czar has in the past two years drilled or acquired five wells with initial absolute open flow potentials exceeding 10 MMCF/D. Included in these wells is the most prolific gas well drilled in the Company's history. The well, July Lake b-66-I/94-P-10, was drilled and completed in 1990 and has a calculated absolute open flow potential of approximately 100 MMCF/D. The well was put on production in the first quarter of 1991 at a rate of 16 MMCF/D and is expected to produce at an average rate of 12 MMCF/D during 1991. Another well, N. Helmet c-20-A/94-P-15 was drilled in December 1990 and has a calculated absolute open flow potential of approximately 20 MMCF/D. The well will be connected to market in the winter of 1991/1992.

Czar also drilled significant gas wells in the Peggo and Suhm pools and additional acreage in these areas will permit significant development activity over the next few years.

As a result of the drilling program in Helmet over the past two years, Alberta and Southern Gas Co. Ltd. confirmed in 1990 that the natural gas reserves controlled by Czar increased from the 63 BCF assigned in 1988, to 230 BCF, thus fulfilling the A&S contract requirements.

New Shallow Gas Exploration

With the completion of the reserve redetermination in Helmet, Czar has redirected its exploration focus to an area straddling the Alberta-Saskatchewan border, where Czar has natural gas contracts in place which will permit new gas to be marketed as soon as it is developed.

The new exploration focus targets geophysically delineated shallow gas prospects in Cretaceous sands trending along the Alberta-Saskatchewan border. To date, Czar has drilled four wells based on seismic data, resulting in three successful gas wells. One of these wells is currently producing from two zones at a rate of 3 MMCF/D, 1.7 MMCF/D net to Czar.

Helmet Area

8 MILES
1990 Drilling Program
1991 Drilling Program
Wells Aquired in 1990
Czar Compression Stations
Czar Pipelines
Westcoast Pipelines
Proposed Westcoast Pipeline
Czar Lands up to December 31, 1989
Czar Land Additions January 1, 1990 to February 8, 1991

Reserves

As a result of the Joint Venture Agreement with Orbit Oil & Gas Ltd., Czar and Orbit determined that it would be in their best interest to have the same engineering firm compile a reserve report for the reserves of both Companies. Fekete Associates Inc. was engaged to prepare a report for the Companies as at the year ended December 31, 1990. Czar's reserves are summarized below:

RESERVES

	Before Royalties		After Royalties	
	Natural Gas (BCF)	Oil & NGL's (MSTB)	Natural Gas (BCF)	Oil & NGL's (MSTB)
Proved Developed	164.9	1,382.2	127.1	1,059.2
Proved Undeveloped	45.0	—	35.6	—
Total Proved	209.9	1,382.2	162.7	1,059.2
Probable	16.2	63.2	12.5	47.1
Total Proved and Probable	226.1	1,445.4	175.2	1,106.3

Estimated Present Value of Future Cash Flow ($ Millions)

	Undiscounted	10%	15%	20%
Proved Developed	$261.5	$113.2	$ 87.9	$ 71.8
Proved Undeveloped	66.9	26.1	18.2	13.3
Total Proved	328.4	139.3	106.1	85.1
Probable	35.9	7.6	4.5	2.8
Total Proved and Probable	$364.3	$146.9	$110.6	$ 87.9

1990 Reserve Additions

Czar's 1990 exploration, development and reserves acquisition program replaced natural gas production by 273%. Oil and natural gas liquids production was replaced by 109%.

As a result of successful exploration and additional production information from existing pools, Czar's proved natural gas reserves increased by 25% over the prior year. Oil and natural gas liquids reserves increased by 33% from 1989 as a result of reserve revisions.

Reserves Continuity

Natural Gas (BCF)		Proved	Probable	Total
Reserves at December 31, 1988		166.4	30.5	196.9
Production 1989		(14.6)	—	(14.6)
Additions 1989	— Exploration	20.3	0.6	20.9
	— Net Acquisitions	3.3	—	3.3
Revisions		(7.6)	(4.0)	(11.6)
Reserves at December 31, 1989		167.8	27.1	194.9
Production 1990		(14.8)	—	(14.8)
Additions 1990	— Exploration	34.2	—	34.2
	— Net Acquisitions	6.2	—	6.2
Revisions		16.5	(10.9)	5.6
Reserves at December 31, 1990		209.9	16.2	226.1
Natural Gas Liquids (MSTB)				
Reserves at December 31, 1988		808.6	72.2	880.8
Production 1989		(85.4)	—	(85.4)
Additions 1989	— Exploration	—	—	—
	— Net Acquisitions	—	—	—
Revisions		(31.8)	(42.1)	(73.9)
Reserves At December 31, 1989		691.4	30.1	721.5
Production 1990		(78.3)	—	(78.3)
Additions 1990	— Exploration	27.2	—	27.2
	— Net Acquisitions	—	—	—
Revisions		244.0	33.1	277.1
Reserves at December 31, 1990		884.3	63.2	947.5
Oil (MSTB)				
Reserves at December 31, 1988		481.6	80.6	562.2
Production 1989		(51.0)	—	(51.0)
Additions 1989	— Exploration	—	—	—
	— Net Acquisitions	—	—	—
Revisions		(79.4)	7.3	(72.1)
Reserves at December 31, 1989		351.2	87.9	439.1
Production 1990		(39.9)	—	(39.9)
Additions 1990	— Exploration	102.2	—	102.2
	— Net Acquisitions	—	—	—
Revisions		84.4	(87.9)	(3.5)
Reserves at December 31, 1990		497.9	—	497.9

The success of Czar's concentration of exploration and development activities in the Helmet area resulted in a significant increase in the proportion of its natural gas reserve base in British Columbia. At year end, 66% of the Company's gas reserves were located in British Columbia, compared with 54% a year earlier.

Similarly, the proportion of Czar's production from British Columbia has increased to 52% in 1990 from 49% in 1989. Natural gas production in British Columbia is anticipated to increase further in 1991 as a result of the completion of the Helmet production facilities expansion project and the new natural gas sales contracts with BC Gas Inc.

SUMMARY OF NATURAL GAS PRODUCTION AND RESERVES BY PROVINCE

	1990		1989		1988	
	BCF	%	BCF	%	BCF	%
Alberta						
Proven Developed	**69.15**	**31%**	73.73	38%	79.98	41%
Proven Undeveloped	**2.20**	**1%**	1.99	1%	2.10	1%
Total Proved	**71.35**	**32%**	75.72	39%	82.08	42%
Probable	**6.57**	**2%**	12.87	7%	14.10	7%
	77.92	**34%**	88.59	46%	96.18	49%
British Columbia						
Proven Developed	**95.76**	**43%**	88.15	45%	81.16	41%
Proven Undeveloped	**42.77**	**19%**	3.83	2%	3.21	2%
Total Proved	**138.53**	**62%**	91.98	47%	84.37	43%
Probable	**9.65**	**4%**	14.20	7%	16.36	8%
	148.18	**66%**	106.18	54%	100.73	51%
Total						
Proven Developed	**164.91**	**74%**	161.88	83%	161.14	82%
Proven Undeveloped	**44.97**	**20%**	5.82	3%	5.31	3%
Total Proved	**209.88**	**94%**	167.70	86%	166.45	85%
Probable	**16.22**	**6%**	27.07	14%	30.46	15%
	226.10	**100%**	194.77	100%	196.91	100%
Production						
Alberta	**7.08**	**48%**	7.50	51%	5.20	48%
British Columbia	**7.70**	**52%**	7.10	49%	5.60	52%
	14.78	**100%**	14.60	100%	10.80	100%

Finding and On Stream Costs

As demonstrated by the Finding Cost table below, Czar has continued to reduce both its Finding Cost and its Finding & On Stream Costs. Capital expenditures of $14.2 million in 1990 resulted in additional reserves, measured in equivalent units of natural gas, of 41.7 BCF. This represents a Finding Cost of $0.21/MCF and a Finding & On Stream Cost of $0.33 per MCF.

The calculation of Finding Costs is based on annual reserve additions, excluding revisions, compared with annual capital expenditures for land, seismic, drilling and associated overhead costs. Finding & On Stream Costs include the cost of production facilities and other tangible equipment required to produce the reserves.

Proven reserves are calculated using an oil to gas equivalent of 10 MCF of gas to 1 BBL of oil.

FINDING AND ON STREAM COSTS

	1990	1989	1988	1987
Land and Reserve Acquisition cost	**4,070**	2,111	1,197	1,052
Drilling, completion and Geophysical	**3,999**	3,152	3,372	3,204
Production facilities	**5,215**	5,186	5,048	1,132
Government Incentives	**(323)**	(244)	(241)	(702)
Overhead capitalized	**994**	749	633	423
Total expenditures	**13,955**	10,954	10,009	5,109
Proven additions (BCF)	**41.7**	23.7	20.6	17.5
Finding costs ($/MCF)	**$0.21**	$0.24	$0.24	$0.23
Finding & On Stream costs ($/MCF)	**$0.33**	$0.46	$0.49	$0.29

MANAGEMENT'S DISCUSSION AND ANALYSIS

Of Financial Condition And Results Of Operations

General

Total revenue for 1990 was $21.1 million compared with $19.5 million in 1989. This increase in revenue primarily resulted from an 8% increase in the average natural gas price from $1.32/MCF in 1989 to $1.42/MCF in 1990.

Cash flow from operations for 1990 was $7.6 million or 21 cents per share compared with $6.8 million or 24 cents per share in 1989. This resulted in earnings of $1.6 million or five cents per share in 1990 compared with $1.3 million or five cents per share in 1989.

Czar is primarily a natural gas producer and generates approximately 90% of its revenues from natural gas sales. Therefore, the results of operations of the Company are most significantly affected by changes in natural gas supply and demand and related pricing changes. The level of demand for natural gas is determined by a complex relationship involving weather patterns, the level of economic activity of industrial natural gas users, and the price and availability of competitive fuels.

Czar sells natural gas under a variety of long-term and short term natural gas contracts. During 1990 approximately 58% of Czar's gas was sold to contracts with terms of more than one year. Czar's business plan is to steadily increase the amount of its natural gas sold under higher priced and more stable, long-term export contracts.

Czar's natural gas production increased modestly during 1990 to 40.5 MMCF/D from 40.1 MMCF/D in 1989. The average price received by Czar for its gas sales during the year increased by $0.10/MCF to $1.42/MCF. This price increase was achieved primarily through the renegotiation of the pricing of a long-term industrial contract, the shift to higher priced long-term export contracts and a modest general increase in natural gas prices. The daily contract quantity of the A&S contract is presently at 20 MMCF/D and is scheduled to increase to 30 MMCF/D on November 1, 1991 and to 40 MMCF/D on November 1, 1992. As a result of the switch in the types of natural gas contracts Czar was responsible for direct transportation costs on a greater portion of its natural gas sales during 1990 and natural gas transportation costs increased by $0.05/MCF.

In May 1989, Czar entered into a Joint Venture and Management Agreement with Orbit Oil & Gas Ltd. As a result, Czar has shared overhead costs with Orbit since January 1, 1990, on the basis of the proportionate of net revenue and capital expenditures of the two Companies. During 1990, Czar contributed 64.9% of the combined indirect overhead of the group.

In 1990, Czar's overhead, before capitalization, was $2.9 million compared with $2.4 million in 1989. The 1989 overhead included a reduction of approximately $640,000 resulting from a non-recurring recovery of plant operating overhead.

In accordance with its accounting policy, Czar capitalized $994,000 of overhead in 1990 compared with $749,000 in 1989 resulting in general administrative expense of $1.9 million in 1990 compared with $1.7 million in 1989.

During 1990, Czar adopted the new CICA accounting recommendations for capital assets which requires a provision for the estimated future site restoration and abandonment cost on a unit of production basis. This change resulted in an increase in the depletion and depreciation expense for the year of $312,000.

Czar has not recorded any provision for current or deferred income taxes in 1990. Income tax deductions available to Czar exceed the book value of its assets by approximately $55 million. The value of these tax deductions has not been recognized in the financial statements and therefore Czar will not be required to record a current or deferred income tax provision for the foreseeable future.

Czar's capital expenditures increased to $14.2 million in 1990. These capital expenditures were financed by $1.1 million in proceeds from flow through share equity, $7.6 million of cash flow, $1.2 million from an increase in obligations under capital leases and $4.3 million from an increase in other long-term debt. In order to fund its share of reserves acquisitions and the production facilities expansion in Helmet, the Company varied from its plan to match capital expenditures to cash flow and equity proceeds.

The most significant item in the Company's capital expenditure program was the expansion of the Helmet compression facilities and gas gathering system. In two separate operations Czar incurred $4.5 million in 1990 and an additional $1.5 million in 1991. In the first quarter of 1990 Czar completed the initial phase of the expansion of the Helmet gathering system and increased total deliverability to 20 MMCF/D (10.4 MMCF/D net to Czar). During the period November 1990 to March 1991, Czar and its partners completed the second phase of the system's expansion and increased Helmet deliverability to 60 MMCF/D (20.8 MMCF/D net to Czar). The system is now capable of delivering the required gas volumes to meet Czar's contract requirements out of the Helmet area for several years to come.

The other key area of increased capital expenditures in 1990 was land acquisitions. A 100% increase in expenditures on land and resource property acquisitions, resulted in Czar acquiring $4.3 million of oil and gas rights during 1990. Of this amount, $3 million was incurred in the acquisition of acreage for future drilling and $1.3 million was incurred in acquiring interests in producing and shut-in natural gas properties, primarily in the Helmet area.

Liquidity and Capital Resources

The terms of the credit facility with the Company's bank were renegotiated in 1990. The Company currently has a line of credit of $37.5 million, of which $32.2 million was utilized on December 31, 1990. The Company's credit facility does not have specific repayment requirements; however, the oil and gas resources of the Company are reviewed annually by the bank to establish the new "lending base".

Czar is therefore able to fully utilize its free cash flow and undrawn bank line for the exploration, development and acquisitions to expand its natural gas reserves base and the construction of gathering and production facilities for natural gas production and sales.

Sensitivity Analysis

The revenues, cash flow and earnings of a natural gas company are to some degree dependent upon the changes in the economic environment within which it operates. As part of its normal operations, Czar endeavors to control variables which can be controlled at a reasonable economic cost. However, some variables are not controllable at a cost which would be economically viable. The following table demonstrates the potential effect of changes in key variables on Czar's cash flow, both in total and on a per share basis. The information is based on Czar's internal forecast of production volumes and prices for 1991.

KEY VARIABLE

	Change in Variable	Impact on Annual Cash Flow	
		$000	$/Share [1]
Natural gas			
Production MMCF/D	1.0	$415	$0.011
Price $/MCF	$0.10	$1,416	$0.039
Interest rate	1%	$175	$0.005

[1] *Per share calculations are based on outstanding shares at December 31, 1990.*

Auditors' Report

**To the Shareholders of
Czar Resources Ltd.**

We have audited the consolidated balance sheets of Czar Resources Ltd. as at December 31, 1989 and 1990 and the consolidated statements of earnings and retained earnings and source and use of cash for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and 1989 and the result of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 15, 1991

Peat Marwick Thorne
Chartered Accountants

Consolidated Balance Sheet

As at December 31

(in thousands of dollars)	**1990**	1989
ASSETS		
Current Assets		
Cash	**$ —**	$ 7,739
Accounts receivable	**8,928**	4,906
Inventory of supplies	**214**	184
	9,142	12,829
Property, Plant and Equipment (note 2)	**56,486**	47,881
Deferred Financing Costs	**482**	590
	66,110	61,300
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**11,412**	8,627
Current portion of long-term debt	**894**	6,494
	12,306	15,121
Long-Term Debt (note 3)	**34,250**	29,424
Convertible Debentures (note 4)	**9,998**	10,000
Provision for Abandonment Costs	**312**	—
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)	**7,607**	59,660
Retained Earnings (Deficit)	**1,637**	(52,905)
	9,244	6,755
	$ 66,110	$ 61,300

Approved by the Board:

, Director

, Director

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31

(in thousands of dollars except per share amounts)	**1990**	1989
Revenue		
Production	**$ 25,973**	$ 23,205
Transportation costs	**(2,382)**	(1,643)
Royalties	**(4,500)**	(4,008)
Alberta royalty tax credit	**1,155**	1,212
Net production revenue	**20,246**	18,766
Processing revenue	**535**	617
Other	**325**	134
	21,106	19,517
Expenses		
Production	**5,906**	5,362
General and administrative	**1,929**	1,729
Interest on long-term debt	**5,427**	4,962
Dividends on preferred shares of a subsidiary company	**—**	546
Other interest	**258**	119
	13,520	12,718
Cash Flow From Operations	**7,586**	6,799
Depletion and depreciation	**(6,032)**	(5,865)
Gain on sale of subsidiary companies (note 9)	**83**	367
Net Earnings	**1,637**	1,301
Deficit at Beginning of Year	**(52,905)**	(54,096)
Share issue costs	**—**	(110)
Authorized reduction of share capital applied to deficit (note 5)	**52,905**	—
Retained Earnings (Deficit) at End of Year	**$ 1,637**	$ (52,905)
Per Common Share (note 1(f))		
Net earnings	**$ 0.05**	$ 0.05
Cash flow	**$ 0.21**	$ 0.24

Consolidated Statements of Source and Use of Cash

Years ended December 31

(in thousands of dollars)	1990	1989
Cash provided by (used for):		
Operating Activities		
Cash flow from operations	$ 7,586	$ 6,799
Change in non-cash working capital items related to operations	(1,267)	(2,061)
	6,319	4,738
Financing Activities		
Bank credit facility	(1,900)	34,071
Conversion of debenture to shares	(2)	—
Redemption of preferred shares of a subsidiary company	—	(37,500)
Issuance of common shares	852	10,726
Capital lease obligations	1,126	1,234
Liability to limited partnerships	—	(512)
Share issue costs	—	(110)
	76	7,909
Investing Activities		
Property, plant and equipment expenditures		
Pursuant to flow-through share arrangements	(1,121)	(1,093)
Pursuant to current operations	(13,096)	(10,012)
Proceeds from sale of subsidiary companies	83	367
	(14,134)	(10,738)
Increase (Decrease) in Cash	(7,739)	1,909
Cash at Beginning of Year	7,739	5,830
Cash at End of Year	$ —	$ 7,739

Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise indicated)

1. Accounting Policies

(a) The consolidated financial statements include the accounts of Czar Resources Ltd. and its subsidiary companies, which are wholly-owned.

(b) Petroleum and Natural Gas Operations

(i) The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost centre. A separate cost centre is established for each country in which the Company operates, presently Canada. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, related overhead expenditures and capitalized interest related to major development projects. Costs of acquiring and evaluating unproved properties and certain major development projects are excluded from the depletion calculation until it is determined whether or not proved reserves are attributable to those properties or major development projects are complete or impairment occurs. The costs in each cost centre together with estimated future site restoration and abandonment costs, are depleted using the composite unit of production method based upon estimated proved reserves after royalties. Crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

During 1990, the Company commenced providing for estimated future site restoration and abandonment costs as part of the depletion provision. The provision for these costs is recorded as a long-term liability.

(ii) The net book value in each cost centre which can be carried forward for amortization against revenues of future periods is limited to an amount equal to the estimated future net revenues from proved reserves, based on current prices and costs, plus the lower of cost or estimated fair value of unproved properties. The aggregate net book value of all cost centres less deferred income taxes and the provision for abandonment costs is limited to the estimated future net revenues from proved reserves plus the lower of cost or estimated fair value of unproved properties less estimated future general and administrative expenses, financing costs, income taxes and future site restoration and abandonment costs.

(iii) Included in production revenue and expenses is consideration received for the sale of properties by the Company to certain drilling partnerships. Principal and interest payments are received in installments which, in the aggregate, may not exceed a fixed percentage of net revenue from the wells drilled by the partnerships. Unpaid principal installments total $36,970,000 at December 31, 1990 (1989 – $37,904,000). Principal and interest payments which are recorded as and when received, are included in revenue and expenses as follows:

	1990	1989
Production revenue	**$ 2,020**	$ 2,240
Royalties	**(274)**	(371)
Production expenses	**(576)**	(608)
	$ 1,170	$ 1,261

(iv) All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others; the Company records only its proportionate interest in such activities.

(c) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proved reserves after royalties of each cost centre. Depreciation of other equipment is provided on a straight-line basis at rates which are estimated to amortize the cost of the assets over their useful lives.

(d) Deferred Financing Costs

Deferred financing costs relating to the convertible debentures are amortized on a straight-line basis over the term of the debentures.

(e) Inventory

The inventory of supplies is valued at the lower of cost or net realizable value.

(f) Net Earnings and Cash Flow Per Common Share

Net earnings and cash flow per common share are calculated using the weighted average number of common shares outstanding during the year of 36,040,086 (1989 – 28,498,358). The calculation of cash flow per common share is based on "cash flow from operations" before changes in non-cash working capital items.

2. Property, Plant and Equipment

	1990	1989
Petroleum and natural gas leases and rights including exploration, development and equipment thereon at cost	**$ 83,476**	$ 69,416
Other	**1,303**	1,146
	84,779	70,562
Accumulated depletion and depreciation	**(28,293)**	(22,681)
	$ 56,486	$ 47,881

Property, plant and equipment include, overhead expenditures which are incurred in the exploration for and development of oil and gas properties, amounting to $994,000 in the year ended December 31, 1990 (1989 – $749,000). The Company has not capitalized any interest costs or excluded costs from depletable costs in 1990 or 1989, pursuant to its accounting policies.

3. Long-Term Debt

	1990	1989
Bank credit facilities (i)	$ 32,171	$ 34,071
Obligations under capital lease (ii)	2,973	1,847
	35,144	35,918
Less current portion	894	6,494
	$ 34,250	$ 29,424

(i) Bank Credit Facilities

On January 31, 1991, the Company consolidated its credit facilities with its banker as follows:

The existing credit facilities were refinanced by a revolving demand production loan with a maximum amount of $37,500,000. This credit facility bears interest at prime plus 1/4%, and may be converted to a non-revolving term facility at the bank's discretion subsequent to June 29, 1991. The credit facility is subject to an annual review.

The credit facilities are secured by a fixed charge debenture on certain assets and a floating charge debenture on all assets of the Company and assignments of accounts receivable and certain petroleum and natural gas properties and revenue interests therein.

The Company has agreed with the Bank not to make any distributions, including dividends, to its shareholders without the consent of the Bank and to maintain certain cash flow levels, working capital and asset value ratios.

In the event that the Company issues common shares or securities convertible into common shares, the Bank has the option to participate on a secondary basis such that 50% of such offering shall be comprised of common shares then held by the Bank. The Bank does not have these rights in respect to flow-through share arrangements and employee option or savings plans.

(ii) Obligations under Capital Leases

Future minimum lease payments are as follows:

1991	$ 1,111
1992	961
1993	731
1994	469
1995	281
	3,553
Less amounts representing interest ranging from 13.25% to 16% per annum	580
	2,973
Less current portion	894
	$ 2,079

4. Convertible Debentures

The unsecured convertible debentures bear interest at 8.75% per annum payable semi-annually on June 15 and December 15 and mature on June 15, 1995.

The debentures are convertible into common shares of the Company at the option of the holder at any time prior to June 16, 1995 at a conversion price of $1.70 per common share. The conversion price is subject to adjustment in certain events.

The debentures are not redeemable prior to July 1, 1991. Thereafter, and prior to December 31, 1993, they are redeemable only if the common shares of the Company have traded at least at 125% of the conversion price for 20 consecutive trading days. Thereafter, they are redeemable at any time. The debentures are redeemable at par plus accrued interest and at an amount equal to 103% of par if redeemed prior to July 1, 1992, which reduces by 1% for each succeeding twelve month period.

5. Capital Stock

(a) Authorized Capital Stock

10,000,000 First preference shares issuable in series
10,000,000 Second preference shares issuable in series
Unlimited number of common shares

(b) Issued Common Shares

	Number of Shares	Amount
Balance December 31, 1988	27,637,482	$ 48,934
Flow-through share arrangements, net of incentives renounced	1,407,270	1,673
Employee savings plan	82,292	102
For cash, net of issue costs of $49,500	6,428,571	8,951
Balance December 31, 1989	35,555,615	59,660
Authorized reduction of share capital	—	(52,905)
On conversion of debenture	1,176	2
Flow-through share arrangements, net of incentives renounced	614,270	717
Employee savings plan	105,256	123
For cash on exercise of option	3,300	3
1989 issue cost adjustment	—	7
	36,279,617	$ 7,607

At the annual and special meeting of shareholders held on June 7, 1990, the shareholders approved a reduction of share capital of $52,905,000, being the Company's consolidated deficit at December 31, 1989.

(c) Common Share Options

Directors, officers and employees hold options to purchase 2,514,000 common shares of the Company at an exercise price of $1.02 from time to time to September 22, 1994, and 37,500 common shares at an exercise price of $1.12 from time to time until July 16, 1995.

(d) Common Share Purchase Warrants

The Company has outstanding common share purchase warrants which entitle the holders to purchase common shares as follows:

Number of Shares	Price	Expiry Date
232,571	$1.71	October 31, 1991
232,571	$2.09	September 23, 1992
2,700,000	$1.50	December 31, 1992

(e) Employee Savings Plan

The employee savings plan provides for employee savings of up to 5% of salary which is matched by the Company in the form of common shares of the Company and Orbit Oil & Gas Ltd. in the same ratio as the reimbursement ratio for the immediately preceding year as defined in the joint venture agreement (note 9). During the year ended December 31, 1990, employees became entitled to receive 105,256 common shares (1989 – 82,292).

(f) Flow-Through Share Arrangements

Pursuant to flow-through share arrangement entered into in 1989, the Company incurred and renounced $1,612,000 of qualifying expenditures during 1990. The Company issued 262,500 shares in 1989 and 262,500 shares in 1990 at a price of $2.20. The Company issued a further 351,770 common shares at $1.30 per share.

6. Income Taxes

At December 31, 1990, the Company had approximately $101,000,000 of tax deductions available to reduce future years' income for tax purposes. The benefit of the excess of the amount over the net book value of the related assets has not been reflected in the financial statements.

The following table reconciles the expected tax provision based on current combined federal and provincial rates (44%) to the actual tax provision.

	1990	1989
Expected income tax provision	$ 720	$ 572
Increase (decrease) in expected tax provision:		
Non taxable gain on sale of subsidiary	(37)	(161)
Non-deductible preferred share dividends	—	240
Non-deductible provincial royalties and lease rentals	1,393	1,099
Other non-deductible items	36	30
Non-deductible depletion	197	222
Alberta royalty tax credit	(508)	(533)
Resources allowance	(1,368)	(1,231)
Earned depletion allowance	(41)	—
Utilization of prior years' losses	(392)	(238)
Actual income tax provision	$ —	$ —

7. Segmented Information

The Company has a single line of business which is the exploration for and the development and production of petroleum and natural gas in Canada. The Company's production revenue includes $4,229,000 ($3,450,000 U.S.) of export sales to the United States (1989 – $3,072,000: $2,620,000 U.S.)

8. Gain on Sale of Subsidiary Companies

In 1986, the Company received two promissory notes aggregating $2.1 million U.S. as consideration for the sale of shares of certain subsidiaries. As payment of the notes is dependent on certain future events, gains are recorded as payment on the notes is received. Other income for the year ended December 31, 1990, includes $83,000 (1989 – $367,000). To December 31, 1990, the Company has received $1.2 million U.S. in respect of these notes.

9. Related Party Transactions

In 1990, Frobisher Resources Ltd., the major shareholder of which is a director and officer of the Company, participated with the Company in its exploration and development operation pursuant to a joint venture agreement entered into on January 6, 1989.

Pursuant to the agreement, Frobisher participated in essentially all of the drilling and acquisition activities of the Company. Frobisher earns 17% of the Company's interest in properties by paying 20% of the Company's share of the costs of drilling and completion operations and 15% of acquisition costs. During the year ended December 31, 1990, Frobisher incurred costs of $2,615,000 (1989 – $1,694,000) pursuant to the agreement and at December 31, 1990 there was a receivable of $164,000 (1989 – $ nil) from Frobisher.

Effective May 1, 1989, the Company entered into a joint venture and management agreement with Orbit Oil & Gas Ltd., a corporation with certain common directors, officers and shareholders, whereby the Company and Orbit share overhead costs and jointly participate in new exploration, development and acquisition activities. The Company was reimbursed for a proportionate share of its costs and expenses incurred in providing overhead services based upon the relative revenue and capital expenditures of the two companies. All oil and gas activities conducted on properties acquired subsequent to May 1, 1989, are conducted with Orbit in a sharing ratio established annually. At December 31, 1990, there was a receivable from Orbit of $1,542,000.

Corporate Information

Board of Directors

Robert W. Lamond [1,2]
Chairman of the Board
President and CEO

Frank Benevento II
President and CEO
Energy Recovery
Management Inc.

Brian C. Bentz [1,2]
Vice President, Finance
H.A Simons (Overseas)
Ltd., Vancouver, B.C.

Donald M. Deacon
Independent Businessman
Charlottetown, P.E.I.

Ashley G. Down
Merchant Banker
Advisor to
Prudential-Bache
Capital Funding
London, England

Ed Mattheis [1,2]
President
Melaar Resources Ltd.
Calgary, Alberta

Charles A. Teare
Executive Vice President
and CFO
Calgary, Alberta

Allan R. Twa
Corporate Secretary
and Partner
Burnet, Duckworth
& Palmer
Calgary, Alberta

[1] Audit Committee
[2] Compensation Committee

Officers and Senior Personnel

Robert W. Lamond
Chairman, President
and CEO

Charles A. Teare
Executive Vice President
and Chief Financial Officer

P.Richard Ewacha
Vice President, Production

Allan R. Twa
Corporate Secretary

Paul M. Boechler
Controller

Wayne T. Radcliffe
District Land Manager

Sharon P. Runge
District Land Manger

Herbert J. Visscher
District Exploration
Manager

Alan A. Higgins
District Exploration
Manager

Kumar Mendis
Accounting Manager

Donald K. Clark
Production Manager,
British Columbia

Philip W. Payzant
Production Manager,
Alberta

Russ M. Sych
Senior Production Foreman
Alberta Production
Operations

Warren M. Smith
Senior Production Foreman
British Columbia Production
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Legal Counsel

Burnet, Duckworth
& Palmer
Calgary, Alberta

Auditors

Peat Marwick Thorne
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust
Calgary, Alberta

Wholly-Owned Subsidiary

Czar Gas Corporation Inc.
Calgary, Alberta

Stock Listings

The Toronto Stock
Exchange
Trading Symbol CZR

Reserve Engineering Consultants

Fekete Associates Inc.
Calgary, Alberta

Abbreviations

Throughout this report, standard oil and gas abbreviations have been used. Their explanation is as follows:

BBLS	*Barrels*
MMCF	*Million Cubic Feet*
MSTB	*Thousand Stock Tank Barrels*
MMCF/D	*Million Cubic Feet Per Day*
BOPD	*Barrels of Oil Per Day*
BCF	*Billion Cubic Feet*

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Consolidated Statements Of Earnings and Retained Earnings

Six Months Ended June 30, 1990
(in thousands of dollars except per share amounts)

(unaudited)	1990	1989 (re-stated)
Revenue		
Production	$ 13,143	$ 11,379
Royalties	(2,445)	(2,115)
Alberta Royalty Tax Credit	668	758
Net Production Revenue	11,366	10,022
Processing revenue	244	289
Other	212	90
	11,822	10,401
Expenses		
Production	2,928	2,759
Natural gas transportation	1,123	537
General and administrative	1,172	572
Interest on long term debt	2,507	2,169
Dividends on preferred shares of a subsidiary company	–	546
	7,730	6,583
Cash Flow From Operations	4,092	3,818
Depletion and depreciation	(2,678)	(2,661)
Gain on sale of subsidiary companies	83	219
Net Earnings	1,497	1,376
Deficit at beginning of the period	(52,905)	(54,096)
Authorized reduction of share capital applied to deficit	52,905	—
Retained Earnings, (Deficit) at the end of period	$ 1,497	$ (52,720)
Per Common Share, based on weighted average number of shares outstanding during the period		
Net earnings	$0.04	$0.05
Cash flow	$0.11	$0.13

Consolidated Statements of Source and Use of Cash

Six Months Ended June 30, 1990
(in thousands of dollars)

(unaudited)	1990	1989 (re-stated)
Cash provided by (used for):		
Operating Activities		
Cash flow from operations	$ 4,092	$ 3,818
Change in non cash working capital items related to operations	(4,100)	(2,257)
	(8)	1,561
Financing Activities		
Bank loan	(1,327)	34,955
Redemption of preferred shares of a subsidiary company	–	(37,500)
Issuance of common shares	789	1,039
Capital lease obligations	(231)	1,033
Liability to limited partnerships	–	(279)
	(769)	(752)
Investing Activities		
Property, plant and equipment expenditures		
Pursuant to flow-through share arrangements	(656)	(989)
Pursuant to current operations	(6,033)	(5,868)
Proceeds from sale of subsidiary companies	83	219
	(6,606)	(6,638)
Decrease in Cash	(7,383)	(5,829)
Cash at beginning of period	7,739	5,830
Cash at end of period	$ 356	$ 1

CZAR
RESOURCES LTD.

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CZAR RESOURCES LTD.

Interim Report For the Six Months Ending June 30, 1990

Rec'd Sept 14, 1990

To the Shareholders

I am pleased to report on the operations of Czar Resources Ltd. for the six months ended June 30, 1990. Czar continued to improve its financial results despite a poorer than anticipated natural gas marketing climate during the second quarter.

Financial

Revenue for the period was $11.8 million compared with $10.4 million in 1989. The increase in revenue resulted from increases in product prices and natural gas production.

Cash flow increased to $4.1 million, or $0.11 per share for the period from $3.8 million, or $0.13 per share in 1989. Total earnings increased to $1.5 million, $0.04 per share from $1.4 million, $0.05 per share in 1989.

The reduction in per share cash flow and earnings reflects the increase to 35.5 million shares outstanding as a result of the $9 million equity issue closed late in 1989.

Transportation costs for the period increased to $1.1 million from $0.5 million in 1989. This increase is attributable to increased direct sales of natural gas during the year for which Czar is responsible for the transportation costs.

General and administrative expenses for the period were $1.2 million compared with $0.6 million in 1989. This increase reflects an unusually large recovery of $645,000 in plant overhead charges reported in the first six months of 1989.

The total debt servicing costs during the period were $2.5 million compared with $2.7 million in 1989. Debt service costs in the second quarter were $574,000 lower than for the same period in 1989 as a result of the reduced level of debt and the lower effective interest rates which were achieved through the utilization of partially hedged $U.S. based borrowings.

Production

Production Summary
Six Months Ended June 30

	1990	1989
Natural Gas (MMCF/D)	**41.0**	39.7
Oil & NGL's (BOPD)	**345**	403

Czar's natural gas production declined modestly in the second quarter from levels achieved in the first quarter, despite the addition of production facilities in the Helmet area of Northeastern British Columbia which increased production capability by 13 MMCF/D (7 MMCF/D net to Czar). The unanticipated decrease in natural gas demand in the second quarter is attributable to several factors, including: increased oil to gas competition as the crude oil price declined to the $16 U.S. range; reduced demand for gas heating in a warmer than normal winter; and significant transportation interruptions in Alberta resulting from construction of Nova's expansion facilities conducted in the second quarter.

Product Prices
Six Months Ended June 30

	1990	1989
Natural Gas ($/MCF)	**$ 1.61**	$ 1.40
Oil & NGL's ($/BBL)	**$18.09**	$16.34

Natural gas prices in the second quarter averaged $1.51/MCF bringing the average for the six months to $1.61/MCF compared with $1.40/MCF for the same period in 1989. We anticipate the lower prices of the second quarter to continue through the third quarter. Seasonal changes will have a positive effect on natural gas demand and prices in the fourth quarter.

Oil and liquids prices declined to average $16.00/BBL in the second quarter resulting in the average price of $18.09 over the six months compared with $16.34/BBL in 1989. The ongoing unsettled conditions in the Middle East have resulted in oil prices in the $32 level in the third quarter. These prices, if sustained, will eliminate oil to gas competition and result in significant increases in natural gas demand and prices in North America.

Exploration

Drilling Results
Six Months Ended June 30

	1990	1989
Gas wells	**10**	10
Dry holes	**1**	1
Total	**11**	11

Czar's focus in 1990 has been on developing natural gas reserves in the Helmet gas field in Northeastern British Columbia. The most recent development in this regard was the acquisition by Czar and its joint venture partners of the majority of Chevron Canada's assets in the area. Czar acquired 29% of 29,604 net acres and 17 producing and shut-in wells on the property for a total consideration of $609,000. With this acquisition Czar has added an additional 32,000 net acres in the Helmet area over the last 12 months, bringing the total land holdings of Czar to 112,000 net acres.

The results of a recent reserves re-determination for the Alberta and Southern Gas Co. Ltd. natural gas contract in the Helmet area confirms the merits of Czar's efforts in this area over the past several years. Alberta and Southern increased the reserves assigned to lands controlled by Czar and its partners to over 230 billion cubic feet from the 63 billion cubic feet assigned in 1989. As a result, Czar has the necessary reserves to complete it's contract obligation and is currently planning a $12 million expansion of the production facilities ($4 million net to Czar) to increase the capacity of the Helmet area from current levels of approximately 20 MMCF/D to 60 MMCF/D by the end of the first quarter of 1991. This will increase Czar's net production from the North Helmet area to 20.8 MMCF/D from 10.5 MMCF/D and represents a 22% increase in Czar's natural gas production capability.

Other capital expenditures were kept to a minimum in order to maintain Czar's annual capital expenditure program within the limit of its cash flow and flow-through equity. Two natural gas wells were drilled and completed in the Wimborne area of Alberta.

Outlook

The increased oil prices resulting from the unsettled Middle East situation will soon begin to influence natural gas prices in North America as $30/BBL oil equates to $5.00/MCF gas at the burner tip. Czar plans to continue to expand its natural gas production and reserves through exploration, development and acquisition. The combination of a stronger natural gas market and the increased production capability of Czar will be reflected in improved cash flow, earnings and financial stability.

On behalf of the Board of Directors

R.W. Lamond
Chairman of the Board
August 24, 1990